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UNCLAS SECTION 01 OF 02 STATE 117303

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C O R R E C T E D C O P Y (SENSITIVE CAPTION ADDED)

E.O. 12958: N/A
TAGS: ECON EFIN LI NI PREL
SUBJECT: LIBERIA,S ARREARS TO THE NIGERIA TRUST FUND
REF: ABUJA 1265

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¶1. (SBU) ACTION REQUEST: Post is requested to seek a meeting with Finance Minister Usman and deliver the

attached letter (see para 9, PDF version will be sent to the Embassy) from Treasury Secretary Henry Paulson as soon as possible, preferably before close of business Tuesday, August 21.

¶2. (SBU) Over the past 18 months, the United States has taken an active part in working with the G-8 and the international financial institutions (IFIs) to help Liberia clear \$1.4 billion in arrears to IFI and bilateral creditors so that it could qualify for new development financing and debt relief. A plan to finance arrears clearance at the World Bank is largely in place and progress is being made on financing packages at the IMF and African Development Bank (AfDB). For its part, the United States is prepared to contribute \$50 million bilaterally (of which at least \$15 million will be used for AfDB arrears), redirect \$150 million in funds held by the IMF, and forgive in due course \$391 million in U.S. claims on Liberia.

¶3. (SBU) At the IMF, Fund management has proposed a financing package that provides a reasonable basis for mobilizing the \$800 million necessary to clear arrears. G-8 member countries have already committed to provide their portion of the financing package. Fund management is now soliciting contributions from non-G-8 members and has secured about half of the \$300 million needed from non-G-8 countries.

¶4. (SBU) At the AfDB, while significant progress has been made in securing financing for clearing Liberia,s regular arrears (about \$200 million), Liberia still has \$44 million in arrears to the Nigeria Trust Fund window of the AfDB. Nigeria has an important role to play in ensuring that Liberia regains its access to AfDB financing. As Nigeria is the economic and political leader of West Africa, we would expect that the GON would agree to forgive the \$44 million that Liberia owes to the Nigeria Trust Fund. If Nigeria does not forgive the full amount, other donors will have to cover the NTF arrears, since Liberia does not have the financial resources to make payments (Liberia,s total revenue in the 2007/2008 fiscal year is only expected to be \$182 million). Finding other donors to cover NTF arrears will be difficult and will further delay Liberia,s

regaining access to development finance from the AfDB.

15. (SBU) A/S Frazer raised the NTF issue with President Yar,Adua at his inauguration in May (see reftel) and AfDB President Donald Kaberuka has also recently spoken with Yar,Adua. Yar,Adua appeared forward leaning in both conversations but in his discussion with Kaberuka noted that a final decision would not be made until his Finance Minister was in place.

16. (SBU) On Thursday, August 16, 2007, staff in the U.S. Executive Director,s office at the AfDB spoke with the new Nigerian Executive Director, Mansur Muhtar (formerly of the Nigerian Debt Management Office), on this topic. Muhtar reported that he would be meeting with Minister Usman on Tuesday, August 21 to develop a recommendation for the President. The timely delivery of this letter to Minister Usman would reinforce the importance the USG attaches to this issue and could help influence Usman,s recommendation to the President.

17. (SBU) Begin suggested talking points.

-- Liberia has made enormous strides since the Johnson-Sirleaf administration took office in January 2006 but the country continues to face equally enormous challenges including an external debt burden equal to 700% of Liberia,s annual GDP and limited access to concessional financing from the IMF, World Bank and AfDB.

-- Obtaining concessional financing and debt relief will be critical to stabilizing Liberia,s economy. However, to

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achieve these two goals, Liberia,s arrears at the IMF, AfDB and World Bank must be cleared.

-- Liberia has extremely limited budget resources devoted to priority expenditures and is unable to contribute more than a token amount to arrears clearance.

-- The U.S. has worked diligently with the World Bank, the IMF, and the African Development Bank and within the G-8 to secure the needed financing to clear the arrears. There is a financing plan in place at the World Bank and we are making progress at both the IMF and the AfDB.

-- Nigeria will play a critical role in clearing arrears at the AfDB and we hope that Nigeria can again fulfill its role as the region,s political and economic leader by forgiving Liberia,s arrears to the NTF.

-- We are certain Nigeria can empathize with the major impact that debt relief will have on Liberia,s economy.

-- Secretary Paulson is looking forward to learning of Nigeria,s forgiveness of Liberia,s NTF debt.

End suggested points.

18. Begin letter text.

Dr. Shamsuddeen Usman
Honorable Minister of Finance
Federal Ministry of Finance
Abuja, Nigeria

Dear Dr. Usman:

Congratulations on your assumption of the post of Minister of Finance.

The economic reforms carried out in Nigeria over the last three years have been impressive, and I hope that you and President Yar,Adua will continue these efforts. The Department of the Treasury remains committed to supporting

Nigeria through the provision of a resident technical advisor in the Debt Management Office.

On an issue of mutual concern, we understand that your staff has already had initial discussions with the African Development Bank about Liberia's \$44 million in arrears at the Nigerian Trust Fund (NTF). I would greatly appreciate hearing from you regarding the progress being made on this issue. The United States and the international community are committed to supporting the clearance of Liberia's arrears to the international financial institutions as quickly as possible.

Again, accept my sincere congratulations on your new position. I hope that the ties between the Department of the Treasury and Federal Ministry of Finance will continue to grow in the coming years.

Sincerely,
Henry M. Paulson, Jr.

End letter text.
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